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# 1

## An Appraisal of the 1957-59 Decline in Exports

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After a spectacular rise from \$11 billion in the first quarter of 1954 to \$21 billion in the first quarter of 1957, United States commercial exports slid down to a trough of \$15 billion in the first quarter of 1959 (annual rates). This decline has attracted a great deal of attention and stirred up a lively debate. Concern has been aroused mainly by the consequences of export contraction for the balance of payments. Painful revisions of American policies may be required, it is feared, if exports fail to revive adequately, and the prospects for revival and further growth are therefore being studied with great care.

This paper analyzes the cyclical fluctuations of United States exports during some eight decades. It is not focused on current events and any contribution it can make in this respect is severely limited. We neither discuss what level of future exports is desirable, nor forecast what the actual level will be. If the study can help in clarifying current problems, it is by providing historical perspective on the current situation. Are United States exports experiencing a mere cyclical movement or are they undergoing deep-seated changes due to a decline in competitive power? How, according to the lessons of the past, are exports likely to develop? These are the kinds of questions we can try to answer. We are well aware, of course, of the unique aspects of recent export developments. Like all previous export fluctuations, they have their own peculiarities and have been affected by countless special circumstances. However, we believe that this latest contraction also has important features in common with earlier ones and that it is useful to reveal them.

How, then, does the 1957-59 export decline compare with earlier ones? <sup>1</sup> Eight of the downward movements in exports since 1921 may—in view

<sup>1</sup> We exclude military grant aid exports and use seasonally adjusted quarterly data.

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of their duration and amplitude—be classified as cyclical contractions. Four of these occurred in the interwar period, the others after World War II. The amplitudes of these eight contractions range from mild in the 1920's to enormous in the Great Depression (Table 1). However in

**TABLE 1**  
**Individual Export Contractions and Full Export Cycles:**  
**Changes in U.S. Exports, 1921-59**  
**(listed in order of severity of total export decline)**

Year and Quarter		Total Percentage Change	Annual Percentage Change
<b>EXPORT CONTRACTIONS</b>			
Peak	Trough		
1927 II	1927 IV	-6.5	-9.7
1925 I	1926 I	-9.9	-9.9
1947 III	1948 II	-21.6	-28.8
1937 III	1938 IV	-25.8	-20.6
1952 I	1954 I	-30.1	-15.0
1949 I	1950 I	-30.9	-30.9
1957 I	1959 I	-31.9	-16.0
1929 I	1934 IV	-150.3	-26.2
<b>FULL EXPORT CYCLES</b>			
Initial Trough	Terminal Trough		
1945 IV	1948 II	+34.3	+13.7
1921 IV	1926 I	+32.3	+7.4
1934 IV	1938 IV	+29.0	+7.2
1954 I	1959 I	+24.3	+4.8
1950 I	1954 I	+16.5	+4.1
1926 I	1927 IV	+1.8	+1.1
1948 II	1950 I	-22.6	-13.0
1927 IV	1934 IV	-115.6	-16.6

### NOTES

1. Based on seasonally adjusted quarterly series.
2. Data for 1933-38 in dollars of 1930 parity, otherwise in current dollars.
3. Military grant aid excluded from exports beginning with the third quarter of 1950.
4. The basis for the percentage change is the average level of the series during a cycle. The averages are weighted.
5. Change in full cycle measures the difference between initial and terminal troughs.

SOURCE: Exports: Table A-1.

Cycle chronologies: NBER.

This source applies to all future tables and charts.

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the five contractions after 1933, the decline in exports was relatively regular, ranging from 22 to 32 per cent of the average level of exports during the respective cycle. The 1957-59 contraction, though the steepest of the five, was not very different from the 30 per cent decline of 1952-54 or from the 31 per cent drop of 1949-50. Thus the decline itself is not outstanding.

Moreover, a contraction should not be judged without reference to the preceding expansion. In our case, this means taking account of the 1954-57 export rise, which was one of the largest on record. It lifted exports to such a peak that even the subsequent 32 per cent drop left them at their trough in 1959 still 24 per cent larger than they had been at their preceding trough in 1954. This gain exceeded those made in four of the seven other cycles covered.

Let us now review the recent export decline in its relation to the timing of fluctuations in United States domestic business. The largest part of this decline, we note immediately, occurred during the business contraction of 1957-58. This is in line with past experience for exports have typically fallen during business contractions since 1921. The question is how the amplitude of the latest decline compares with the earlier ones. Table 2 provides this comparison for the business contractions of 1923-24, 1926-27, 1948-49, and 1953-54. The period of catastrophic fall and subsequent recovery (1929-38) is also included in Table 2, but is not covered by the following remarks. We find that the recent downswing in exports is very much larger than the mild declines during the contractions of the 1920's. It contrasts even more unfavorably with the exceptional rise of exports during the business contraction of 1953-54. On the other hand, in 1948-49 exports dropped by the same percentage as in 1957-58. The recent fall may thus be termed relatively sharp, but not extraordinary.

To evaluate the severity of the decline, we must again consider the preceding growth, for a relatively steep decline may represent merely a return to "normal" after an unusual rise. This appears likely since exports had experienced, during the general business expansion of 1954-57, an extraordinary boom due partly to the Suez crisis. In order to obtain a picture of the change in exports over full business cycles, we compare their standings at the initial and terminal business troughs in each cycle (lower section of Table 2). This shows that after their fall in 1957-58 exports were still 21 per cent larger at the business trough of 1958 than at the previous low point in business in 1954—a result that appears definitely favorable when compared to the record of exports in the earlier cycles. The 21 per cent rise is, in fact, close to the largest previous one, the

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TABLE 2

Individual Domestic Business Contractions and Full Business Cycles: Changes in U.S. Exports and in Ratio of U.S. Exports to World Imports, 1921-58 (listed in order of severity of export decline)

Year and Quarter		Total Percentage Change	
		U.S. Exports	Ratio of U.S. Exports to World Imports
BUSINESS CONTRACTIONS			
Peak	Trough		
1953 II	1954 III	+4.9	-2.6
1923 II	1924 III	-0.9	-9.3
1926 III	1927 IV	-3.7	-11.0
1937 II	1938 II	-8.7	+8.0
1948 IV	1949 IV	-19.3	-1.2
1957 III	1958 II	-19.3	-7.5
1929 II	1933 I	-113.4	-35.7
FULL BUSINESS CYCLES			
Initial Trough	Terminal Trough		
1933 I	1938 II	+42.9	+26.9
1945 IV	1949 IV	+22.1	n.a.
1954 III	1958 II	+20.7	+3.5
1949 IV	1954 III	+16.1	-21.3
1924 III	1927 IV	+12.5	-4.5
1921 III	1924 III	+2.4	-26.0
1927 IV	1933 I	-95.3	-28.3

World imports exclude U.S. imports.

See Table 1, notes 1-5.

SOURCE: World imports: Table A-2.

This source applies to all future tables and charts.

22 per cent expansion of 1945-49. This is the more remarkable as the latest gain was achieved on top of earlier ones, for exports in 1954 had already exceeded those of 1949 which in turn were larger than in 1945.

But perhaps the high rank of the recent export gain is due to inflation. Does the rise in real terms also compare favorably to that in other cycles? In view of the current concern, it may come as a surprise that the 1954-58 rise in exports in constant dollars (export quantity) was, in fact, the largest under review. Amounting to 15 per cent, it greatly exceeded the 7 and 10 per cent gains made during the two preceding cycles. Conversely,

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the 7 per cent rise in export prices in 1954-58 was considerably smaller than the 11 per cent advance of 1949-54 and the 18 per cent increase in 1945-49.

The next question is how the latest development of our exports compares to that of foreign countries. We have examined the fluctuations in the ratio of U.S. exports to the total imports of the world excluding the United States. This ratio, as a rule, is positively correlated to exports so that we expect it to decline together with exports during U.S. business contractions. In 1957-58 the 8-point decline was intermediate between two larger ones during the contractions of the 1920's and two milder ones during contractions after World War II.

The development of exports again appears even more favorable when expansions are included. In the three other cycles under review—the 1945-49 cycle must be excluded here for lack of data on world trade—the share of U.S. exports in world imports was from 4 to 26 points lower at the final trough than at the initial one. In 1958, on the contrary, this share was somewhat higher than it had been in 1954.

To appreciate this, one must keep in mind that the U.S. share in world trade has, naturally, been much higher since the war than in the late 1920's or 1930's. In the 1954-58 cycle our exports amounted, on the average, to 19.9 per cent of the outside world's imports; in the preceding cycle, the figure was 19.5 per cent. By contrast, it was, for example, 17 per cent in 1922-31 and only 13 per cent in 1932-38. Undeniably, the share of United States exports in world imports was large by historical standards in 1954-58.

Having reviewed the record of exports during the 1954-58 business cycle, we now add a note on the succeeding three quarters, from the U.S. business trough in the second quarter of 1958 to the trough in world imports and U.S. exports in the first quarter of 1959. Was the record of exports in this period of counterexpansion (domestic expansion concurrent with world trade contraction) unusual compared to experience under similar circumstances in the past? Our analysis discloses that U.S. exports have invariably declined during counterexpansions. The latest drop was one of the two mildest among six periods of this type.

Nor does the slight decline in the ratio of U.S. exports to world imports which occurred in these three quarters seem unusual. Since the ratio also fell in the five other instances of counterexpansion, this appears to be normal rather than to suggest the emergence of a new situation.

The body of this paper deals solely with exports in the aggregate. However, we can draw on preliminary results of a study of cycles in the

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various classes of export commodities for a brief comment on this aspect of recent developments. Are movements in aggregate exports representative of the main commodity classes? In one important sense, they are. Finished manufactures, semimanufactures, and crude materials have in general moved in the same direction as total exports since 1921. Numerous and powerful factors operating from time to time on individual commodities or commodity classes cause some large differences in the size of these movements. But forces common to all classes prevail to the extent that change in opposite direction is exceptional. Only foods diverge, for obvious reasons, from the general trend. It is, thus, not surprising that the behavior of total exports in 1954-59 is, on the whole, repeated in the individual commodity classes. The common features are that exports of finished manufactures, semimanufactures, and crude materials all fell sharply in 1957-58, but fell less than they had risen in the preceding expansion, and were all considerably larger at the business trough in 1958 than at the preceding one in 1954. The latter is also true of food exports which, however, did not participate in the 1957-58 contraction. Again, in the counterexpansion of 1958-59, three of the four classes shared in the downswing of the aggregate, with semimanufactures constituting the exception in this instance.

In amplitude of change, however, the various classes differed considerably. In the 1957-58 contraction the percentage drop in semimanufactures and crude materials was roughly twice the size of that in finished manufactures. The drastic shrinkage of the former represents largely the return to more normal levels of exports of fuel and other materials which had been swollen by the scare buying during the Suez crisis. It accords with this interpretation that the largest part of the shrinkage occurred in the early part of the contraction when swollen inventories had to be worked off.

What was said above about export values also holds, with minor modifications, for export quantities, despite variations in price movements of individual classes.

When exports of the various economic classes are examined over the full cycle of 1954-58, the picture is very different from that presented by the contraction above. To begin with, the value of crude materials registered a gain of 21 per cent despite the 30 per cent decline in the contraction. Such a gain had been materially exceeded only once before—in the 1945-49 cycle when the rebuilding of Europe with Marshall Plan aid absorbed unusual amounts of U.S. materials. The enormous expansion of the value of crude materials exports in 1954-57 was not due to inflation. On the contrary, prices were falling slightly at the time. Cotton, coal, and oilseeds were large contributors to the rise.

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The 19 per cent advance in 1954-58 in the value of finished manufactures was not far behind that in crude materials. Yet it is small for this class and ranks behind its growth in the four earlier cycles. Moreover, in this instance, the advance in prices does indeed account for a considerable portion of the rise in value, and the increase in the quantity of finished manufactures was very much smaller than in earlier cycles. Here, then, is one aspect of the recent development of exports which might justify dissatisfaction. However, it must be stressed, that it is a matter of slow growth, not of decline. We cannot tell as yet whether it indicates a basic change in demand, whether it is due to the rise in prices, or whether it should be ascribed to special factors such as the decline in sales of aircraft caused by the transition to jet planes. In evaluating possible explanations, one should note that exports of finished manufactures were not depressed at the business trough in 1954 and this may account in part for the mildness of the subsequent rise. It accounts also for the larger rise in the preceding cycle. Compared to the 1920's, the growth in exports of finished manufactures was indeed far less rapid in the 1950's, but this was true over the whole period and is not a phenomenon of the last few years.

During the latest period covered—the counterexpansion from the second quarter of 1958 to the first quarter of 1959—there was little change in the value of finished manufactures exported. The modest decline in total exports was due almost entirely to the sharp drop in crude materials, mainly cotton and coal.

In sum, the analysis of their past record leads to the following conclusions about United States exports in 1954-59. Growth in the quantity of manufactured exports has been relatively slow compared to earlier periods. Growth in total exports, however—and this is what matters for the balance of payments—was high by historical standards, despite the sharp slump during the recession. Furthermore, the large share of the United States in total world exports was maintained.

Whether results which compare favorably with past achievements are adequate for the present situation is a different matter which does not lie within the scope of this paper.

After this swift glance at developments which occurred after the main work on this paper was done, we turn now to the systematic study of cycles in U.S. exports.